TSB Intermediate Company 2 Limited

Directors' report and financial statements
For the period ended 31 March 2013

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

3467236

Directors

A G Magasiner
J Coyle

Member of Lloyds Banking Group

Directors' report

For the period ended 31 March 2013

The directors present their report and the audited financial statements of TSB Intermediate Company 2 Limited ("the Company") for the period ended 31 March 2013

Business review

Principal activities

The Company is a limited company incorporated and domiciled in England and Wales (registered number 3467236) The principal activity of the Company is to act as a holding company of TSB Bank plc (formerly known as Lloyds TSB Scotland plc)

The Company's results for the period show a Profit before tax of £22,381 (2011 £nil)

The Company is funded entirely by other companies within the Lloyds Banking Group ("the Group")

Future outlook

There are no expected changes in the nature and extent of the Company's operations

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company Further details of the Company's and Group's risk management policy are contained in note 2 to the financial statements and the Group annual report for the year ended 31 December 2012

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

Policy and practice on payment of suppliers

The Company follows "The Prompt Payment Code" published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers Information about the "Prompt Payment Code" may be obtained by visiting www promptpaymentcode org uk

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated

It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract

As no amounts are owed to trade creditors as at 31 March 2013, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2011 nil)

Dividends

No dividends were paid or proposed during the period (2011 £nil)

Going concern

The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis

Directors

The names of the current directors are shown on the cover

The following changes have taken place during the period or since the period end

A G Magasiner	(appointed 7 March 2012)
J Coyle	(appointed 20 November 2012)
G Ferguson	(resigned 7 March 2012)
S E Harris	(resigned 15 November 2012)

Directors' report (continued)

For the penod ended 31 March 2013

Directors' indemnities

The directors have the benefit of a deed of indemnity which constitutes a "qualifying third party indemnity provision" These deeds are in force during the whole of the financial period (or from the date of appointment in respect of directors who join the board during the financial period) The indemnities remain in force at the date of signing the financial statements Deeds for existing directors are available for inspection at the registered office of Lloyds Banking Group plc

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of information to auditors

Each director in office at the date of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006

Independent auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487(2) of the Companies Act 2006

On behalf of the board

A G Magasiner
Director

18 December 2013

Independent auditors' report to the member of TSB Intermediate Company 2 Limited

We have audited the financial statements of TSB Intermediate Company 2 Limited for the period ended 31 March 2013 which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, the Cashflow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its results and cash flows for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Scott Berryman

Scott Berryman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

18 December 2013

Statement of comprehensive income

For the period ended 31 March 2013

	Note	Period from 1 December 2011 to 31 March 2013 £	For the year ended 30 November 2011 £
Finance income	6	**22,381**	-
Profit before tax		**22,381**	-
Taxation	8	**-**	-
Profit for the period attributable to owners of the parent, being total comprehensive income		**22,381**	-

The notes on pages 8 to 12 are an integral part of these financial statements

Balance sheet
As at 31 March 2013

	Note	31 March 2013 £	30 November 2011 £
ASSETS			
Other current assets	9	**1,372,373**	2
Investment in subsidiary	10	**360,027,000**	-
Total assets		**361,399,373**	2
LIABILITIES			
Borrowed funds	11	**361,376,990**	-
Total liabilities		**361,376,990**	-
EQUITY			
Share capital	12	**2**	2
Retained profits		**22,381**	-
Total equity		**22,383**	2
Total equity and liabilities		**361,399,373**	2

The notes on pages 8 to 12 are an integral part of these financial statements

The financial statements on pages 4 to 12 were approved by the board of directors and were signed on its behalf by

A G Magasiner
Director

18 December 2013

Statement of changes in equity

For the penod ended 31 March 2013

	Share capital £	Retained profits £	Total £
At 1 December 2010	**2**	**-**	**2**
At 30 November 2011	**2**	**-**	**2**
Profit for the penod being total comprehensive income	-	22,381	22,381
At 31 March 2013	**2**	**22,381**	**22,383**

The notes on pages 8 to 12 are an integral part of these financial statements

Cash flow statement

For the period ended 31 March 2013

	Period from 1 December 2011 to 31 March 2013 £	For the year ended 30 November 2011 £
Cash flows generated from operating activities		
Profit before tax	**22,381**	-
Adjustment for		
- Preference dividend income receivable	**(22,381)**	-
Cash generated from operations	**-**	-
Cash flows used in investing activities		
Purchase of ordinary shares in TSB Bank plc	**(360,027,000)**	-
Purchase of preference shares in TSB Bank plc	**(1,349,990)**	-
Net cash used in investing activities	**(361,376,990)**	-
Cash flows from financing activities		
Proceeds from borrowings with group undertakings	**361,376,990**	-
Net cash from financing activities	**361,376,990**	-
Net increase in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of period	-	-
Cash and cash equivalents at end of period	**-**	-

The notes on pages 8 to 12 are an integral part of these financial statements

Notes to the financial statements

For the period ended 31 March 2013

1 Accounting policies

1 1 Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below These policies have been consistently applied to both periods presented, unless otherwise stated

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body

There are no new IFRS pronouncements relevant to the Company requiring adoption in these financial statements

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 March 2013 and which have not been applied in preparing these financial statements are given in note 17

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention

1 2 Finance income

Dividend income for preference shares is recognised in the Statement of comprehensive income on accrual basis

1 3 Financial assets and liabilities

Financial assets comprise Other current assets Financial liabilities comprise Borrowed funds

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument Financial assets and liabilities are derecognised when the rights to receive cash flows, or obligations to pay cash flows, have expired

Interest bearing financial assets and liabilities are recognised and measured at amortised cost inclusive of transaction costs, using the effective interest rate method

1 4 Investment in subsidiary

Investment in subsidiary is stated in the Balance sheet at cost less any provision for impairment

Investment in subsidiaries is reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised in the Statement of comprehensive income for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and value in use For the purposes of assessing impairment, investments are grouped at the lowest level at which cash flows are separately monitored by management

1 5 Impairment

The carrying value of all financial assets held at amortised cost is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable fair prices and expected net selling prices

Impairment of Investment in subsidiary is calculated by comparing the carrying value of the investment to the net assets of the subsidiary to determine whether the carrying value of the investment may not be recoverable

1 6 Taxation

Current tax which is payable or receivable on taxable profits or losses is recognised as an expense or credit in the period in which the profits or losses arise

Tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously

Notes to the financial statements

For the penod ended 31 March 2013

2 Rısk management policy

The Company's operatıons expose ıt to lıquıdıty nsk and busıness nsk, ıt ıs not exposed to any sıgnıficant ınterest rate nsk, foreıgn exchange nsk, credıt nsk or market nsk Responsıbılıty for the control of overall nsk lıes wıth the board of dırectors, operatıng wıthın a management framework establıshed by the ıntermedıate parent, Lloyds Bank plc, and the ultımate parent, Lloyds Bankıng Group plc The lıquıdıty nsk faced by the Company ıs ın substance managed and borne by other group undertakıngs whıch fund the Company Busıness nsk ıs managed through regular reportıng and oversıght

2 1 Lıquıdity risk

Lıquıdıty nsk ıs the nsk that the Company ıs unable to meet ıts oblıgatıons as they fall due Lıquıdıty nsks are managed as part of the Group by an ıntermedıate parent company, Lloyds Bank plc, ın consultatıon wıth the board of dırectors Monthly revıews of fundıng posıtıons are undertaken to antıcıpate any shortfalls

2 2 Busıness nsk

Busıness nsk ıs the nsk that the Company's Investment ın subsıdıary ıs ımpaıred or ıts eamıngs are adversely ımpacted by a suboptımal busıness strategy or the suboptımal ımplementatıon of the strategy In assessıng busıness nsk, consıderatıon ıs gıven to ınternal and external factors such as products, fundıng, resource capabılıty, and economıc, polıtıcal and regulatory factors

Through regular reports and oversıght busıness nsk ıs managed by correctıve actıons to plans and reductıons ın exposures where necessary

3 Crıtical accounting estımates and judgements in applyıng accountıng polıcies

The preparatıon of financıal statements ın conformıty wıth generally accepted accountıng pnncıples requıres the use of estımates and assumptıons that affect the reported amounts of assets and lıabılıtıes at the date of the financıal statements and the reported amounts of revenues and expenses dunng the reportıng penod Although those estımates are based on management's best knowledge of the amount, event or actıons, actual results ultımately may dıffer from those estımates

No cntıcal accountıng estımates and judgements were applıed ın preparatıon of these financıal statements

4. Other operatıng expenses

Fees payable to the Company's audıtors for the audıt of the financıal statements of £9,500 (2011 £nıl) have been borne by a fellow group undertakıng and are not recharged to the Company Accountıng and admınıstratıon servıces are provıded by a fellow group undertakıng and not recharged to the Company

5 Staff costs

The Company dıd not employ any persons dunng the penod (2011 none)

6. Finance income

	31 March 2013 £	30 November 2011 £
Dıvıdend ıncome from preference shares (see note 13)	**22,381**	-

The Company receıves dıvıdend ıncome on ıts preference shareholdıng ın TSB Bank plc

7. Directors' emoluments

No dırector receıved any fees or emoluments dunng the penod (2011 £nıl) The dırectors are employed by other companıes wıthın the Lloyds Bankıng Group and consıder that theır servıces to the Company are ıncıdental to theır other responsıbılıtıes wıthın the Group

Notes to the financial statements (continued)

For the penod ended 31 March 2013

8. Taxation

The tax charge for the penod is £nil (2011 £nil) This differs from the theoretical amount that would anse using the weighted average tax rate applicable to profits of the Company as follows

	31 March 2013 £	30 November 2011 £
Profit before tax	**22,381**	-
Tax charge thereon at UK corporation tax rate of 24 0% (2011 26 67%)	**5,371**	-
Factors affecting charge		
- Non-allowable and non-taxable items	**(5,371)**	-
Tax on profit on ordinary activities	**-**	-
Effective rate	**0 0%**	-

The Finance Act 2012, which was substantively enacted on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24 per cent to 23 per cent with effect from 1 April 2013 The Finance Act 2013 was substantively enacted on 2 July 2013 The Act further reduces the rate of corporation tax to 21 per cent with effect from 1 April 2014 and 20 per cent with effect from 1 April 2015

9. Other current assets

	31 March 2013 £	30 November 2011 £
Amounts due from group undertakings (see note 13)	**2**	2
Loans and receivables	**1,372,371**	-
	1,372,373	2

Amounts due from parent undertaking are unsecured, non-interest bearing and repayable on demand

Loans and receivables consists of cost of redeemable preference share holding in TSB Bank plc of £1,349,990 (2011 £nil) and accrued preference dividend income of £22,381 (2011 £nil) The holding of the preference shares do not entitle the Company to receive notice of or to attend or vote at any general meeting of TSB Bank plc The preference shares are held on the Balance sheet at amortised cost The fair value of the preference shares is not significantly different to their carrying values

10. Investment in subsidiary

	31 March 2013 £	30 November 2011 £
TSB Bank plc ordinary shares	**360,027,000**	-

On 25 July 2012 the Company obtained funding from Lloyds Bank plc and purchased 100% of 75,000,001 ordinary shares for a consideration of £360,027,000 and 1,349,990 preference shares for a consideration of £1,349,990 in TSB Bank plc

At 31 December 2012 the aggregate capital and reserves of TSB Bank plc was £751,300,000 (2011 £668,000,000) and the profit after tax for the year then ended was £83,300,000 (2011 £97,500,000) No dividend on ordinary shares was proposed by TSB Bank plc during or since the year end

Notes to the financial statements
For the penod ended 31 March 2013

11. Borrowed funds

	31 March 2013 £	30 November 2011 £
Amounts due to group undertakings (see note 13)	**361,376,990**	-

Amounts due to group undertakings are non-interest beanng, unsecured and repayable on demand The fair value of Amounts due to group undertakings is approximately equivalent to its carrying value

12 Share capital

	31 March 2013 £	30 November 2011 £
Allotted, issued and fully paid		
2 ordinary shares of £1 each	**2**	2

At 31 March 2013, the authonsed share capital of the Company was £100 divided into 100 shares of £1 each

The immediate parent company is TSB Intermediate Company 1 Limited (incorporated in England and Wales) The company regarded by the directors as the ultimate parent company is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member Lloyds Bank plc is the parent undertaking of the smallest such group of undertakings Copies of the accounts of both companies may be obtained from Group Secretanat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN

13 Related party transactions

The Company is controlled by Lloyds Bank plc A number of transactions are entered into with related parties in the normal course of business A summary of the outstanding balances at the penod end are set out below

	31 March 2013 £	30 November 2011 £
Amounts due from group undertakings		
Lloyds Bank plc	**2**	2
TSB Bank plc - preference dividend	**22,381**	-
Total Amounts due from group undertakings (see note 9)	**22,383**	**2**
Amounts due to group undertakings		
Lloyds Bank plc (see note 11)	**361,376,990**	-

The above balances are unsecured in nature and are expected to be settled in cash or by cash equivalents

Key management personnel

Key management personnel are those persons having authonty and responsibility for planning and controlling the activities of the Company Accordingly, key management compnse the directors of the Company and the members of the Lloyds Banking Group plc board There were no transactions between the Company and key management personnel dunng the current or preceding year Key management personnel are employed by other companies within the Lloyds Banking Group and consider that their services to the Company are incidental to their other activities within the Group

UK Government

In January 2009, the UK Government through HM Treasury became a related party of Lloyds Banking Group plc, the Company's ultimate parent company, following its subscnption for ordinary shares issued under a placing and open offer As at 31 March 2013, HM Treasury retained a significant interest in Lloyds Banking Group plc's ordinary share capital and consequently HM Treasury remained a related party of the Company dunng the penod ended 31 March 2013

14 Capital disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements

The Company's parent manages the Company's capital structure and advises the board of directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets In order to maintain or adjust the capital structure, the board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in equity The Company receives its funding requirements from its fellow group undertakings and does not raise funding externally

15. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2011 £nil)

16. Post balance sheet events

During November 2013 the management of TSB Bank plc confirmed that it is planning to redeem its preference shares by settling those in cash at par value including any related oustanding preference dividend The redemption is expected to take place during December 2013

17 Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 March 2013 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
Improvements to IFRSs (issued May 2012)	Sets out minor amendments to IFRS standards as part of the annual improvements process Most amendments clarified existing practice	Annual periods beginning on or after 1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	Sets out disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities	Annual periods beginning on or after 1 January 2014
IFRS 13 Fair value Measurement	Sets out a single IFRS framework for the measurement of fair value and the related disclosure requirements	Annual periods beginning on or after 1 January 2013
IFRS 9 Financial Instruments Classification and Measurement [1&2]	Replaces those parts of IAS 39 Financial Instruments Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument The Available-for-sale financial asset and held-to-maturity categories in the existing IAS 39 will be eliminated The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39	Annual periods beginning on or after 1 January 2015

1 At the date of this report this pronouncement is awaiting EU endorsement.

2 IFRS 9 is the initial stage of the project to replace IAS 39 Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting Until all stages of the replacement project are complete it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39

The full impact of these pronouncements is being assessed by the Company However, the initial view is that none of these pronouncements are expected to cause any material adjustments to the reported numbers in the financial statements